

USDA-RUS

This data will be used by RUS to review your financial situation and, subject to federal laws and regulations regarding confidential information, will be treated as confidential. expense is required by 7 U.S.C. 901 et seq.

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

BORROWER NAME

Dubois Telephone Exchange, Inc

(Prepared with Audited Data)

INSTRUCTIONS: Submit report to RUS within 30 days after close of the period.
For detailed instructions, see RUS Bulletin 1744-2. Report in whole dollars only.

PERIOD ENDING
December, 2012

BORROWER DESIGNATION
WY0515

CERTIFICATION

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

ALL INSURANCE REQUIRED BY 7 CFR PART 1788, CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES.

DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1788 OF 7CFR CHAPTER XVII
(Check one of the following)

☒ All of the obligations under the RUS loan documents have been fulfilled in all material respects

☐ There has been a default in the fulfillment of the obligations under the RUS loan documents. Said default(s) is/are specifically described in the Telecom Operating Report

Michael Kenney

4/25/2013

DATE

PART A. BALANCE SHEET

ASSETS	BALANCE PRIOR YEAR	BALANCE END OF PERIOD	LIABILITIES AND STOCKHOLDERS' EQUITY	BALANCE PRIOR YEAR	BALANCE END OF PERIOD
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	546,177	1,371,270	25. Accounts Payable	186,564	293,671
2. Cash-RUS Construction Fund			26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments	76,350	114,864
a. Telecom, Accounts Receivable	120,749	134,471	28. Customer Deposits	2,869	3,728
b. Other Accounts Receivable		212,058	29. Current Mat. L/T Debt	675,658	106,930
c. Notes Receivable			30. Current Mat. L/T Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat.-Capital Leases		
a. Telecom, Accounts Receivable	197,028	198,740	32. Income Taxes Accrued		
b. Other Accounts Receivable	160,311	166,050	33. Other Taxes Accrued	32,672	35,899
c. Notes Receivable			34. Other Current Liabilities	322,157	109,165
5. Interest and Dividends Receivable			35. Total Current Liabilities (25 thru 34)	1,296,270	664,257
Material-Regulated	129,669	423,833	LONG-TERM DEBT		
Material-Nonregulated	12,587	13,379	36. Funded Debt-RUS Notes	74,340	45,262
8. Prepayments	130,534	118,130	37. Funded Debt-RTB Notes		
9. Other Current Assets			38. Funded Debt-FFB Notes		1,703,919
10. Total Current Assets (1 Thru 9)	1,297,055	2,637,931	39. Funded Debt-Other		
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan		
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt		
a. Rural Development			42. Reacquired Debt		
b. Nonrural Development			43. Obligations Under Capital Lease		
12. Other Investments			44. Adv. From Affiliated Companies		
a. Rural Development			45. Other Long-Term Debt		
b. Nonrural Development	398,635	403,535	46. Total Long-Term Debt (36 thru 45)	74,340	1,749,181
13. Nonregulated Investments			OTHER LIAB. & DEF. CREDITS		
14. Other Noncurrent Assets			47. Other Long-Term Liabilities	2,639,667	3,193,878
15. Deferred Charges	324,451	320,591	48. Other Deferred Credits		
16. Jurisdictional Differences			49. Other Jurisdictional Differences		
17. Total Noncurrent Assets (11 thru 16)	723,086	724,126	50. Total Other Liabilities and Deferred Credits (47 thru 49)	2,639,667	3,193,878
PLANT, PROPERTY, AND EQUIPMENT			EQUITY		
18. Telecom, Plant-In-Service	25,406,667	25,845,690	51. Cap. Stock Outstand. & Subscribed	20,613	20,613
19. Property Held for Future Use			52. Additional Paid-In-Capital		
20. Plant Under Construction	154,775	455,973	53. Treasury Stock		
21. Plant Adj., Nonop. Plant & Goodwill			54. Membership and Cap. Certificates		
22. Less Accumulated Depreciation	15,295,124	15,681,647	55. Other Capital	(733,504)	(938,846)
23. Net Plant (18 thru 21 less 22)	10,266,318	10,620,016	56. Patronage Capital Credits		
24. TOTAL ASSETS (10+17+23)			57. Retained Earnings or Margins	8,989,073	9,292,990
	12,286,459	13,982,073	58. Total Equity (51 thru 57)	8,276,182	8,374,757
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	12,286,459	13,982,073

Total Equity = 59.90% % of Total Assets

USDA-RUS		BORROWER DESIGNATION	
OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS		WY0515	
		PERIOD ENDING	
INSTRUCTIONS- See RUS Bulletin 1744-2		December, 2012	
PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS			
ITEM		PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues		964,137	929,590
2. Network Access Services Revenues		3,887,638	3,895,903
3. Long Distance Network Services Revenues		5	
4. Carrier Billing and Collection Revenues		37,035	31,039
5. Miscellaneous Revenues		125,142	120,312
6. Uncollectible Revenues		339	1,010
7. Net Operating Revenues (1 thru 5 less 6)		5,013,618	4,975,834
8. Plant Specific Operations Expense		1,478,762	1,541,621
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)		239,415	297,209
10. Depreciation Expense		1,259,840	1,184,658
11. Amortization Expense			
12. Customer Operations Expense		190,026	190,307
13. Corporate Operations Expense		1,074,131	1,021,872
14. Total Operating Expenses (8 thru 13)		4,242,174	4,235,667
15. Operating Income or Margins (7 less 14)		771,444	740,167
16. Other Operating Income and Expenses			
17. State and Local Taxes			
18. Federal Income Taxes		(93,685)	116,320
19. Other Taxes		389,071	194,144
20. Total Operating Taxes (17+18+19)		295,386	310,464
21. Net Operating Income or Margins (15+16-20)		476,058	429,703
22. Interest on Funded Debt		57,535	21,817
23. Interest Expense - Capital Leases			
24. Other Interest Expense			
25. Allowance for Funds Used During Construction		11,964	7,792
26. Total Fixed Charges (22+23+24-25)		45,571	14,025
27. Nonoperating Net Income		(23,988)	(13,425)
28. Extraordinary Items			
29. Jurisdictional Differences			
30. Nonregulated Net Income		189	101,666
31. Total Net Income or Margins (21+27+28+29+30-26)		406,688	503,919
32. Total Taxes Based on Income		238,563	251,188
33. Retained Earnings or Margins Beginning-of-Year		8,782,385	8,989,071
34. Miscellaneous Credits Year-to-Date			
35. Dividends Declared (Common)		200,000	200,000
36. Dividends Declared (Preferred)			
37. Other Debits Year-to-Date			
38. Transfers to Patronage Capital			
39. Retained Earnings or Margins End-of-Period [(31+33+34) - (35+36+37+38)]		8,989,073	9,292,990
40. Patronage Capital Beginning-of-Year			
41. Transfers to Patronage Capital			
42. Patronage Capital Credits Retired			
43. Patronage Capital End-of-Year (40+41-42)		0	0
44. Annual Debt Service Payments		1,017,584	126,437
45. Cash Ratio [(14+20-10-11) / 7]		0.6538	0.6756
46. Operating Accrual Ratio [(14+20+26) / 7]		0.9141	0.9165
7. TIER [(31+26) / 26]		9.9243	36.9301
8. DSCR [(31+26+10+11) / 44]		1.6825	13.4660

USDA-RUS		BORROWER DESIGNATION WY0515	
OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS		PERIOD ENDED December, 2012	
INSTRUCTIONS – See help in the online application.			
PART I – STATEMENT OF CASH FLOWS			
1. Beginning Cash (Cash and Equivalents plus RUS Construction Fund)		546,177	
CASH FLOWS FROM OPERATING ACTIVITIES			
2. Net Income		503,919	
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
3. Add: Depreciation		1,184,658	
4. Add: Amortization		0	
5. Other (Explain) other taxes accrued		3,227	
Changes in Operating Assets and Liabilities			
6. Decrease/(Increase) in Accounts Receivable		(233,231)	
7. Decrease/(Increase) in Materials and Inventory		(294,956)	
8. Decrease/(Increase) in Prepayments and Deferred Charges		16,264	
9. Decrease/(Increase) in Other Current Assets		0	
10. Increase/(Decrease) in Accounts Payable		107,107	
11. Increase/(Decrease) in Advance Billings & Payments		38,514	
12. Increase/(Decrease) in Other Current Liabilities		(212,992)	
13. Net Cash Provided/(Used) by Operations		1,112,510	
CASH FLOWS FROM FINANCING ACTIVITIES			
14. Decrease/(Increase) in Notes Receivable		0	
15. Increase/(Decrease) in Notes Payable		0	
16. Increase/(Decrease) in Customer Deposits		859	
17. Net Increase/(Decrease) in Long Term Debt (Including Current Maturities)		1,106,113	
18. Increase/(Decrease) in Other Liabilities & Deferred Credits		554,211	
19. Increase/(Decrease) in Capital Stock, Paid-in Capital, Membership and Capital Certificates & Other Capital		(205,342)	
20. Less: Payment of Dividends		(200,000)	
21. Less: Patronage Capital Credits Retired		0	
22. Other (Explain)			
23. Net Cash Provided/(Used) by Financing Activities		1,255,841	
CASH FLOWS FROM INVESTING ACTIVITIES			
24. Net Capital Expenditures (Property, Plant & Equipment)		(740,221)	
25. Other Long-Term Investments		(4,900)	
26. Other Noncurrent Assets & Jurisdictional Differences		0	
27. Other (Explain) prop,plant,equip + afudc 1538355 less line 24		(798,137)	
28. Net Cash Provided/(Used) by Investing Activities		(1,543,258)	
29. Net Increase/(Decrease) in Cash		825,093	
30. Ending Cash		1,371,270	

Revision Date 2010

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Board of Directors
Dubois Telephone Exchange, Inc.

We have audited the financial statements of Dubois Telephone Exchange, Inc. for the year ended December 31, 2012, and have issued our report thereon dated March 23, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and 7 CFR 1773, *Policy on Audits of Rural Utilities Service (RUS) Borrowers*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Dubois Telephone Exchange, Inc. for the year ended December 31, 2012, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A material weakness is a significant deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

INDEPENDENT AUDITOR'S MANAGEMENT LETTER
(continued)

7 CFR 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR 1773.33(e)(2) and related party transactions and investments. In addition, our audit of the financial statements also included the procedures specified in 7 CFR 1773.38-.45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our independent auditor's report, and our independent auditor's report on internal control over financial reporting and on compliance and other matters, all dated March 23, 2013) or summary of recommendations (other than the audit fieldwork exit conference) related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding Dubois Telephone Exchange, Inc.'s internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records;
- The process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts; and
- The materials control.

INDEPENDENT AUDITOR'S MANAGEMENT LETTER
(continued)

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts, and grants. The procedures we performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement, or lease between the borrower and an affiliate for the year ended December 31, 2012, of Dubois Telephone Exchange, Inc.:
 - Obtained and read a borrower-prepared schedule of new written contracts, agreements, or leases between the borrower and an affiliate as defined in 7 CFR 1773.33(e)(2)(i).
 - Reviewed Board of Directors' minutes to ascertain whether Board-approved written contracts are included in the borrower-prepared schedule.
 - Noted the existence of written RUS approval of each contract listed by the borrower.
- Procedure performed with respect to the requirement to submit the *Operating Report for Telecommunications Borrowers* to the RUS:
 - Agreed amounts reported in the *Operating Report for Telecommunications Borrowers* to Dubois Telephone Exchange, Inc.'s records.

The results of our tests indicate that, with respect to the items tested, Dubois Telephone Exchange, Inc. complied, in all material respects, with the specific RUS loan and security instruments provisions referred to below. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has obtained written approval of the RUS to enter into any contract, agreement, or lease with an affiliate as defined in 7 CFR 1773.33(e)(2)(i); and
- The borrower has to submit the *Operating Report for Telecommunications Borrowers* to the RUS as of December 31, 2012, represented by the borrower as having been submitted to the RUS, in agreement with Dubois Telephone Exchange, Inc.'s audited records, in all material respects, and appears reasonable based on the audit procedures performed.

INDEPENDENT AUDITOR'S MANAGEMENT LETTER
(continued)

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of Dubois Telephone Exchange, Inc., nothing came to our attention that caused us to believe the Company failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33(c)(1);
- The clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- The approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR 1773.33(c)(5);
- The disclosure of material related party transactions for the year ended December 31, 2012, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33(e); and
- The detailed schedule of investments in affiliated companies is not attached to this letter as it is not applicable.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, the RUS, and supplementary lenders and is not intended to be, and should not be used by anyone other than these specified parties.

MOSS ADAMS LLP

Moss Adams LLP

Spokane, Washington
March 23, 2013